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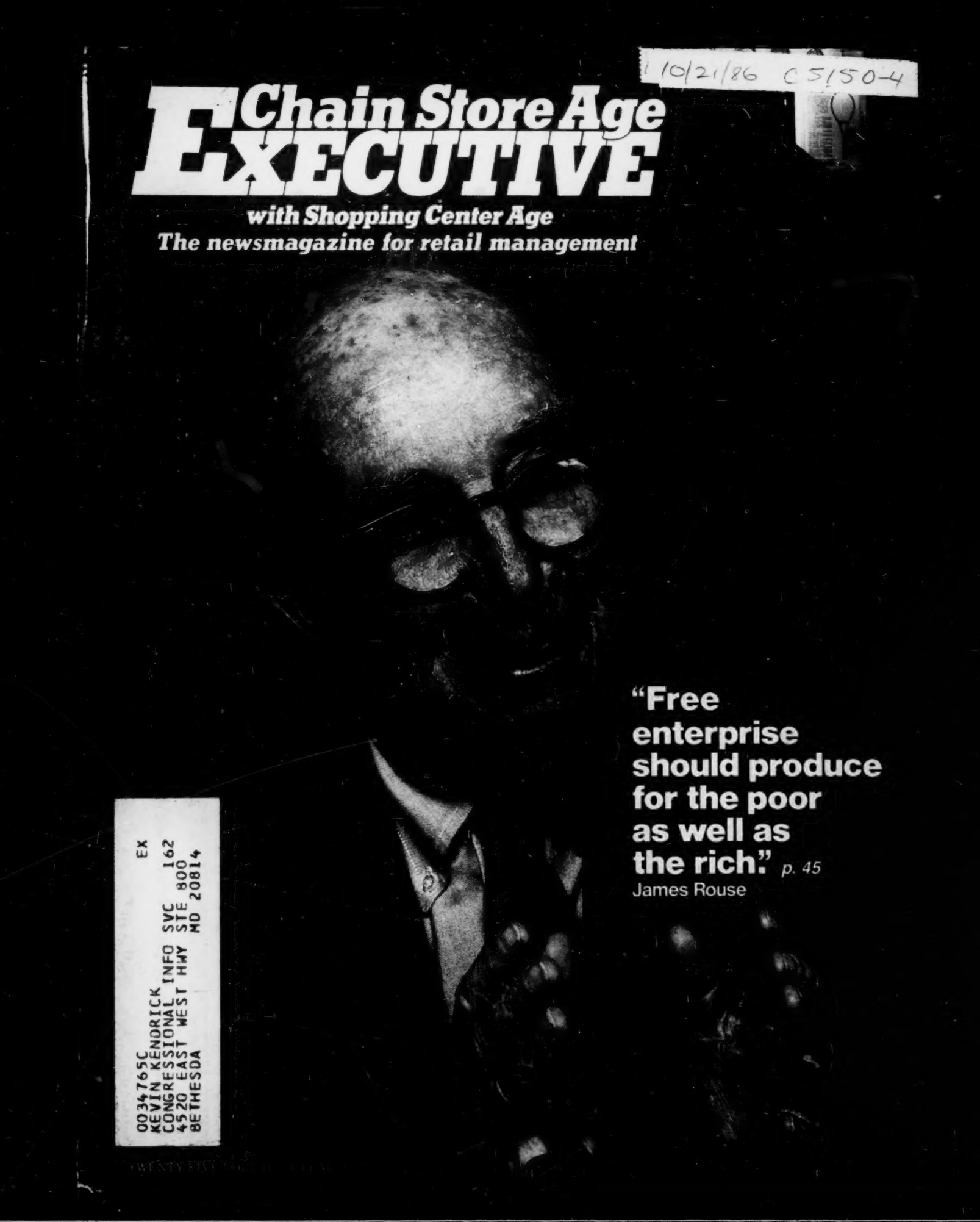
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management



"Free enterprise should produce for the poor as well as the rich." *p. 45*

James Rouse

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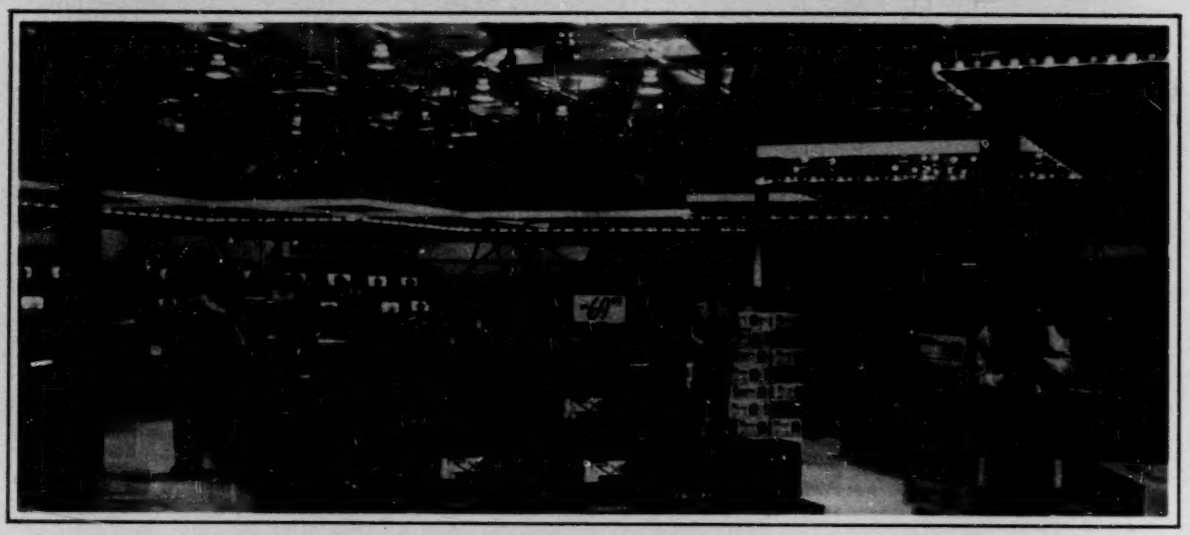

SUPERSTORES PLUG INTO CE POWER

Best Buy, the Minneapolis, Minn.-based consumer electronics powerhouse, is racking up sales per square foot of $1,096. These would be the envy of any retailer. Yet, in the world of consumer electronics retailers, Best Buy's success is far from unique. Such companies represent the newest form of power retailing. *28*

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SHOPPING CENTER AGE

FESTIVAL CENTER PROFITS GO TO IMPROVE HOUSING

James Rouse is utilizing his shopping center expertise to fund the projects of his Enterprise Foundation; Plus, throughout the industry, developers are coming up with new center concepts. These and other topics are explored in this *Shopping Center Age* special section. 35

ADG ACQUISITION TURNS MAY INTO SUPER POWER

COUP BY DAVID FARRELL SHOWS HE'S A FINANCIAL EXECUTIVE ON THE MOVE

It was quite evident in the early stages of David C. Farrell's career at the May Co. that he was a man determined to go places in the retail world.

After joining May in 1956, he soon established a reputation as a workaholic—coming in early, leaving late and working on weekends.

By 1969, he had worked his way up to being president of the Kaufmann's division in Pittsburgh and a vp of the parent corporation. He became president of May in 1975, ceo in 1979 and chairman in 1985.

His friends say that he is ambitious and not content with the fact that May had earnings of $235.4 million, or $5.38 a share, on sales of $5.1 billion in the fiscal year ended Feb. 1. These figures look good when compared with other retail chains whose earnings and sales vacillated sharply during the early 1980s when May's rose steadily year after year. Still, Farrell wanted a bigger company. And that's exactly what he has after successfully executing the $2.5 billion acquisition of Associated Dry Goods.

However, Farrell's quest actually began a few years ago when he called Thomas M. Macioce, chairman and ceo of competing Allied Stores, and requested a meeting. He suggested a merger of the two large chains. But nothing developed. Reportedly, Macioce asked who would be chairman and Farrell said he, Farrell, would. This meant that Macioce would have a lesser position, and he wasn't about to give up being the boss. Insiders say that the two personalities would have clashed early and often.

Farrell, 53, changed his target and began holding discussions with Joseph H. Johnson, chairman and ceo of ADG. ADG numbers among its divisions prestigious Lord & Taylor, department stores J. W. Robinson and L. S. Ayres, the Caldor discount store operation, and Loehmann's.

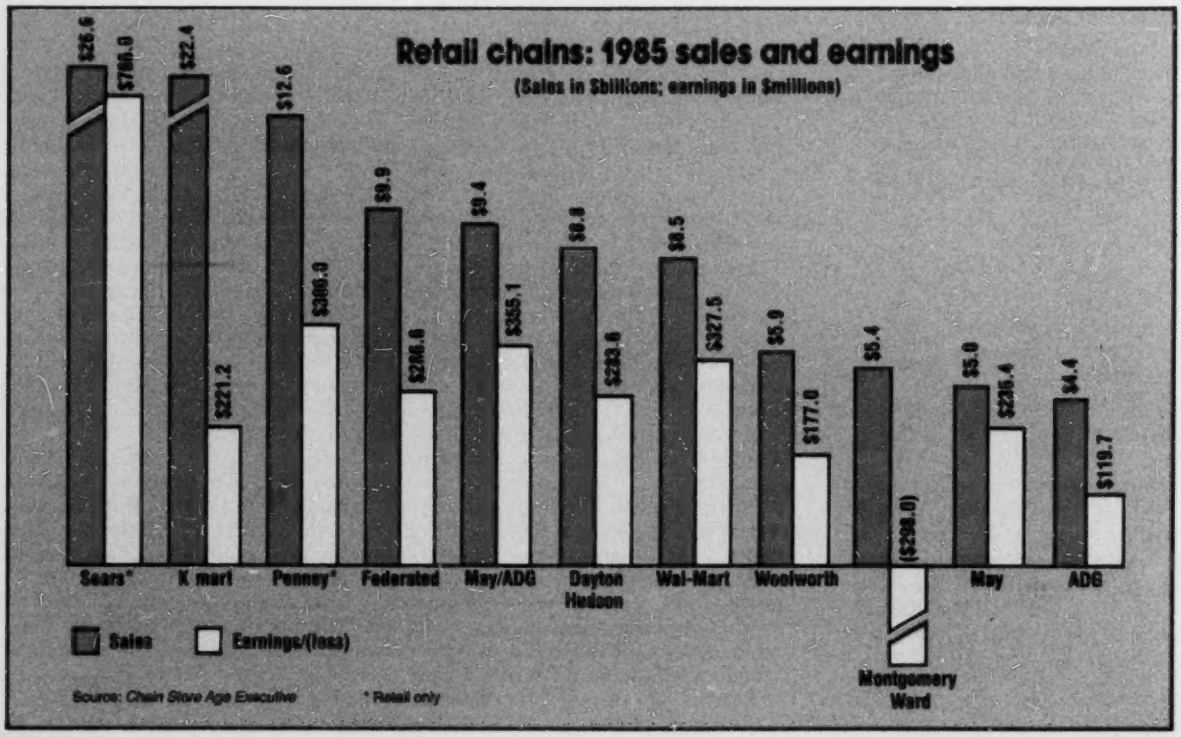
When nothing tangible resulted from these conversations, Farrell's next move was to send Johnson a letter containing a formal bid for the company—and copies also went out to the press.

ADG waged a brief battle in July, mainly bickering about the amount of the offer. By mid-month, though, a definite ceasefire had been called and ADG—which had earnings of $119.7 million, or $3 a share, on sales of $4.4 billion in the fiscal year ended Feb. 1—capitulated.

The merger was approved by the boards of both companies. It will give ADG shareholders 0.86 of a share of May's stock for each share they own, compared with the 0.75 of a share in the original offer. At the time of the approval, May's stock was trading for $73.38 on the New York Stock Exchange, putting the value of the deal at $63.10 a share, or about $2.5 billion in total.

The merger is expected to be completed some time this month . Shareholders of both companies must approve the merger, and the Federal Trade Commission is reviewing possible antitrust action. General consensus is that the FTC won't hinder the transaction.

Stuart Robbins, a retail industry analyst with Donaldson, Lufkin & Jenrette, terms the transaction a "super deal." He explains: "The combination will be a powerhouse in the general merchandising field. It will be just about as big as Federated and will grow twice as fast." He projects a 15% annual earnings growth in the



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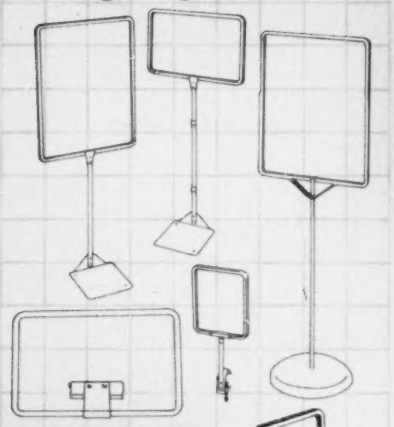

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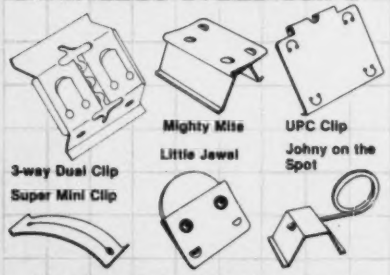

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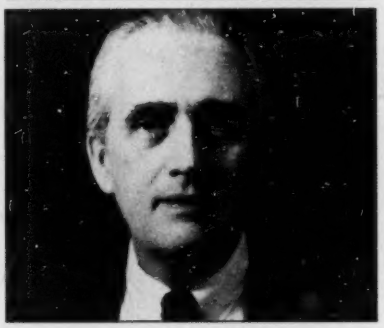
next five years with moderate dilution of May stock as a result of new shares to be issued to ADG shareholders. "Only Dayton Hudson and Allied could rival their earnings growth," he says. His preliminary estimates for the combined company's earnings are $5.30 to $5.40 a share in 1986, compared with $6.10 to $6.15 a May share prior to the merger.

Not everyone is as enthusiastic. Carl F. Campbell, an analyst who follows May for R. Rowland in St. Louis, says: "For ADG shareholders it's a fine deal, for May management it's a good deal, but this is not really a good deal for May stockholders. They're buying a company that's not really in top shape and they'll have to spend lots more to put it in top shape."



Farrell: "It is our intention to maintain both store names with separate organizations [in Pittsburgh]. Venture and Caldor will continue to operate separately."

May has already made it quite plain that it doesn't plan to merge any of the department stores or discount chains, nor does it plan to discontinue any.

Farrell says that in Pittsburgh, May will continue operation of independent Kaufmann's and ADG's Joseph Horne, which competes directly. "It is our intention to maintain both store names with separate organizations," says Farrell. He also notes that Venture and Caldor, two upscale discounters, will continue to operate separately.

But apparently ADG headquarters executives are going to have to adjust their lifestyles, according to insiders at May. Farrell has established a corporate culture of long working hours in the St. Louis headquarters. His work days—and those of his staff—usually begin around 7 a.m. and last through 8:30 p.m., and most people are expected to be at their desks on Saturdays.

Farrell thrives on work, say his friends. He's not known for his genial personality, but he does have a reputation as an astute businessman who wants to build May into a top-notch company.

Johnson, on the other hand, is known for delegating authority to his executives and giving them the support they need. He is also not known as a nudge.

Most important in Farrell's new company is the fact that May will become a major buying power. Where May ranked ninth behind Sears, Roebuck, K mart, J. C. Penney, Federated Department Stores, Dayton Hudson, Wal-Mart, F. W. Woolworth and Montgomery Ward in sales last year, it will now leapfrog into a virtual tie with Federated in fourth place with a combined volume of about $10 billion.

Farrell says that the 63-year-old Johnson will join the May board after the merger. Other than this, Johnson's future role at presstime hadn't been determined. Reports are that he will retire, possibly with a golden parachute.

Johnson says that he is "delighted that the negotiations are behind us, and the two companies can proceed together toward building one of the great retailing companies in the world." Farrell says he "looks forward to working with Mr. Johnson and the Associated organization."

Joseph Brooks, chairman of ADG's Lord & Taylor, and four other ADG executives also will join May's board, which currently consists of 15 members. One of the more valuable assets that Farrell is acquiring is Brooks, who is generally credited with building Lord & Taylor from a sleepy little high-priced chain into a highly successful, exciting national chain.

During the blush of the first announcement that May wanted to acquire ADG, reports circulated that Brooks was trying to put together a leveraged buyout of Lord & Taylor, but nothing materialized.

Brooks is a highly visible merchant prince, often photographed at society and fund raising affairs. There is an air of anxiety as to how he and the usually publicity-shy Farrell will get along together.

Summing up the general thoughts of Wall Street and professional retail observers is Jeffrey Edelman, first vp of Dean, Witter, Reynolds: "The successful takeover represents a major coup for Farrell and May," he says. ■

year and didn't even notify the customers.

For the most part, Grocery Express prices are competitive with San Francisco supermarkets. Typically, if the delivery charge and tip are included, an average order runs about 8% over buying the same goods in a supermarket. "We have a lot more labor than a supermarket . . . the labor offsets savings in overhead you get by not having a store."

Currently, Garvey employees 40 people, though many of them are part-time, resulting in an equivalent full-time staff of 30. Ten are order takers, 15 work in the warehouse, five handle administration and 10 work as drivers delivering orders in the six vans that are either owned or leased by the company.

For someone who has no has no one to pattern her company on, Garvey has so far succeeded quite well on her own. For the year she's been in charge, sales volume has increased by about 35% while the customer base has risen by 1,000. The company is currently packing 90 to 100 orders per day with an average price tag of $70.

Garvey attributes the increases primarily to heavy direct mail advertising. The company also encourages word of mouth advertising by offering incentives such as $5 off to both the new customer who tries it and the person who made the referral.

Although for now she is still looking for increases, Garvey notes that "if anything, we have to pay attention to restricting the growth so it doesn't grow too fast. It is a service and if you try to add too many [new customers] too quickly, your service side goes down."

She says she will be comfortable if she can generate growth of about 25% per year through a combination of adding customers and increasing frequency of sales. "Some people do depend on us 100%," she reports, "some people 50% . . . Most of the growth will come by attracting new households."

In the meantime Garvey has added some new products to the existing selection of 3,500-plus sku's. Grocery Express will now deliver some hot entrees through a deal worked out with San Francisco restaurants. And, if the customer is in the mood to take in a movie with dinner, then—thanks to a deal with an area video rental store—Grocery Express will deliver a videocassette, too. ■

—H.K.

MIS: SMALL STORES THINK BIG

AUTOMATION MARKET TO HIT $10.9 BILLION BY 1988

The clerk at the sales desk of a small Lexington Avenue boutique in New York City calls up a menu on the terminal screen, taps a few computer keys and informs the customer that, "Yes, we have it in a size eight. Wait and I'll get it for you." Moments later, a printer adjacent to the terminal is humming away, churning out a detailed sales slip.

This is no national chain. Far from it—the owner has one other store; like this one, it is a maximum of 1,500 sq. ft. Yet, the sophistication level of its management information system at the point of sale is enough to satisfy any customer or store manager.

This store typifies a trend within the arena of small and medium-sized retailers—that is, they are beginning to follow in the MIS footsteps of the nation's largest chains.

Fueled in part by the expenditures of such operations, retail automation will grow to a $10.9 billion market by 1988, up nearly 100% from 1984's $5.5 billion.

This statistic, contained in a report recently released by the International Data Corp. (IDC), Framingham, Mass., reflects an 18.8% compound annual growth rate in the retail automation market. The report, *Automation in the Retail Industry*, outlines the unprecedented investment in new systems and notes that automation expenditures as a percentage of retail industry revenues is on the rise.

One source of these expenditures is the small and medium-sized retailers that are investing in small computer systems to handle retail-specific and general purpose business applications, according to the report. The drop in computer prices and the proliferation of personal computers have made automation accessible to these retailers, who are showing the largest percentage increases in expenditures.

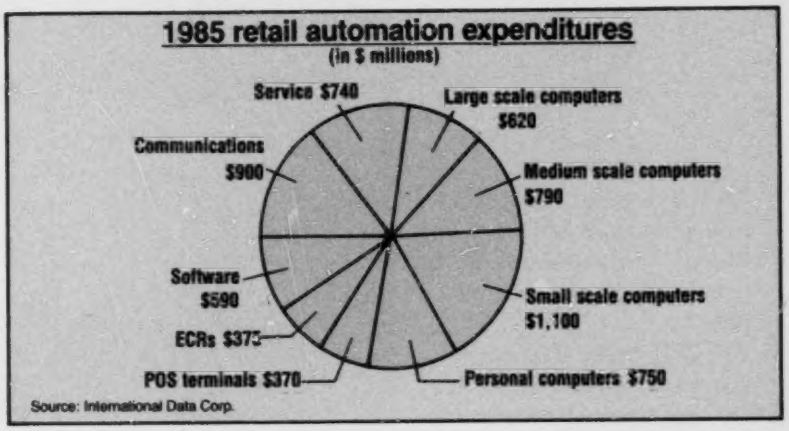
Given that virtually all of the nation's large retailers already have mainframe-based POS systems—with some of these retailers already on their second and third generation systems—their expenditures will consist mostly of service, add-ons and upgrades, according to the report.

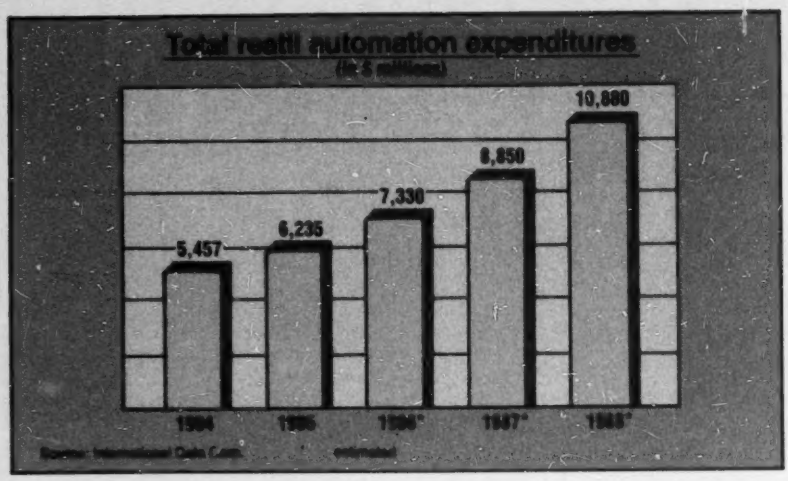
These larger retailers are also investing in microcomputers, super microcomputers and PCs at the store level to give individual store managers more timely and appropriate data and to offload the corporate mainframe, says IDC.

While corporate-wide applications such as general ledger will still be run on the large central mainframe, many retail-specific applications are being moved to smaller, in-store processors.

In fact, the IDC surveyed respondents asking about the most common applications running on in-store processors. In terms of retail-specific applications, price look-up, inventory management and sales analysis led the pack. Payroll, remittance processing and time and attendance processing ranked high on the list of general business applications.

Lowest on the retail-specific list were mail order processing, mail list management and advertising analysis. The counterparts on the general business list were demographic anal-





ysis, in-house publishing and computer-automated design.

Although the report does not break out expenditures by retail segment, it does project the growth of various categories of retail automation equipment and services.

Specifically, in the computer categories, the personal computer market will show the greatest compound annual growth, 21.7%, from 1984 through 1988, says the report. (The growth is reflected in dollar volume, not in industry shipments.)

The small computer market follows with 16.6%; medium-sized computers at 10% and large mainframes at 6.6%.

"Reflected in those projections is the notion that smaller stores don't need large mainframes, they need smaller computers," reasons Peter Cohen, senior consultant, strategic business practices at IDC. "They [small retailers] are automating more quickly, therefore those markets will grow more quickly."

Compound annual growth for the period 1984 through 1988 for computer related categories is as follows: electronic cash registers, 36.8%; software, 32.5%; services (all maintenance including third party and vendor-supplied), 22.1%; communications, 17.2%, and POS systems, 12.1%.

While the report does not break down the dollar volume being spent by category, it does give a relative analysis of POS systems shipments. As with other computer systems, vendors are shipping an increasing number of POS systems to specialty stores. Shipments to discount stores are increasing moderately, most probably because discounters have reached the point where they are investing in second generation systems, many with scanning capabilities, says Cohen.

Shipments to both supermarkets and department stores appear to be leveling off.

One noticeable change in the overall retail automation market that will result from higher small store expenditures is the growth of companies selling packaged retail-specific application software. The market for horizontal applications (such as employee scheduling) and specialized applications (such as bookstore management) is expected to increase rapidly.

Additionally, value-added resellers (VAR) are taking a stronger position as a distribution arm. Large automation equipment manufacturers are expected to turn to VARs as a cost-effective alternative to a direct sales force.

"The VAR channel will grow in importance in this market. There are companies other than [the majors] that can offer very comprehensive and, in fact, often better systems than the small retailers might get from the vendors themselves," claims Cohen. "They may offer ones that are tailored more specifically to their [retailers'] particular requirements."

IDC, which conducts market research for the computer industry, compiled this report based on surveys of 200 retailers, representing several thousands of stores. Those retailers represented the gamut of the industry from single store operators (49) to chains owning more than 1,000 stores (2). Two others operate between 500 and 999 stores, and 12 respondents realize more than $500 million in revenues.

Additionally, notes Cohen, several vendors were contacted concerning their shipments in order to confirm statistics obtained from the retailers. ■

IF THE CHECK *WASN'T* IN THE MAIL

MACY, PALAIS ROYAL DEBT COLLECTORS CONNECT

It used to take an R. H. Macy telephone debt collector all day long to talk to 30 consumers about overdue bills and get them to promise to pay up. Today, that same collector can reach about 30 delinquent debtors an hour.

At Palais Royal, a 27-store family apparel chain in Houston, telephone collectors get about 50 such promises an hour per collector, compared with 30 per day before September 1985.

The big difference—the time and employee saver—is a little black box called the TBS Telecollection System, produced by TBS International, Richardson, Tex.

Prior to installing the system in February 1985, Macy's telephone collectors wasted a good deal of their time dialing a number, listening to the phone ring and either getting no answer, a busy signal or finding the wrong person answering the phone. The debtor wasn't home.

According to Ed Epstein, vp-credit operations for R. H. Macy (headquartered in Cranford, N.J.), the TBS system has ". . . revolutionized the collection business. It permits our operators to do multiple calls. I've got five people doing the work of 35 collectors."

At Palais Royal, Charles Ross, vp and general credit manager, says that prior to installing the TBS system a year ago, it would take each operator 100 phone calls to get about 30 people to promise to pay up. "Today, the collectors spend 99% of their time in conversations with customers, rather than wasting time."

Briefly, the TBS 850 Telecollection System dials between 500 and 600 calls per hour, routing only answered calls to the telephone collectors. When the computer connects the call, all the proper accounting data is sent to the TBS workstation. Information can be updated by the collector